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TAGS: ECON EFIN PGOV ENRG SOCI JO
SUBJECT: JORDAN ELIMINATES SOME OIL SUBSIDIES, REDUCES OTHERS IN COMBINED ONE-TIME ACTION

REF: A. STATE 22411

¶B. AMMAN 1118
¶C. 05 AMMAN 5228

Classified By: AMBASSADOR DAVID HALE FOR REASONS 1.4 (B, D)

¶1. (C) SUMMARY: Prime Minister Bakhit's government is set to completely liberalize prices in three oil product categories, and raise fuel prices across five remaining subsidized products, effective April 1. The average weighted increase to fuel prices will be about 25 percent, but will include a 43% increase in diesel fuel, the highest single increase in the last several years for the most-consumed fuel item in Jordan. The April 1 fuel price hike will combine planned spring and fall increases into one for a savings of JD 294 million (USD 415 million). To curb the impact on the poor, a new JD 60 million (USD 85 million) "social safety net" program will provide two one-time payments to lower-income Jordanians. The detailed plan has the full support of PM Bakhit and DPM Fariz, who are already floating its outlines to the public and expect to have it approved at an upcoming cabinet session. By March 2007, the GoJ plans to not only eliminate fuel subsidies, but also earn revenues from oil taxes. END SUMMARY.

Some Fuel Products go to Open Market Prices

¶2. (C) Minister of Planning Suhair Al Ali confirmed the plan March 15 to the Ambassador, noting it is better for Jordan to take all of its medicine at once, including the 43% increase for diesel fuel for heating and trucks - the biggest single fuel price increase in this item in some time. Ministry of Finance Secretary General Hamed Kasasbeh told acting Econ/C March 16 that the plan's details and its April 1 implementation date are still confidential to avoid hoarding and speculation, and that the detailed fuel price list had not yet been formally presented to the cabinet. Among eight major fuel product categories, three will be completely liberalized, he said: aviation fuel, asphalt (known as "black oil"), and "white spirits" (a solvent of kerosene and additives), which together account for less than 10 percent of all fuel consumption in Jordan. Some fuel oil prices will also be liberalized, excluding fuel oil for electricity generation, according to Kasasbeh.

Fuel Product Hikes

¶3. (C) Referring to a table of price hikes already approved by the Prime Minister, Deputy Prime Minister and other

"notable" figures in leadership positions, Kasasbeh said the price of diesel fuel - which accounts for the largest share of oil consumption in Jordan - will jump 43% to 0.315 JD/liter (about 45 cents/liter at an exchange rate of USD 1.41/JD). A gallon of unleaded gas in Jordan will cost about USD 3.40 under the new plan. The price of fuel oil for electricity generation will increase by 65%.

Other price hikes are:

Fuel	New Price	% increase
Regular gasoline	0.450 JD/liter	16.8%
Premium gasoline	0.600 JD/liter	18.8%
Unleaded gas	0.635 JD/liter	16.5%
Kerosene	0.315 JD/liter	43%
Liquid propane gas	4.25 JD/canister	13.3%

Budget On Track - Combined Hike Less of a Headache
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¶4. (C) Kasasbeh asserted that these fuel price hikes will save the GoJ JD 294 million (USD 415 million), assuming a crude oil price of USD 60/barrel, a major boon to Jordan's beleaguered budget (Ref A). He noted that the approved 2006 budget line item for oil subsidies would remain at JD 125 million for the year, as approved by parliament (Ref B). Jordan uses about 100,000 barrels of crude oil a day, which is refined at Jordan Petroleum Refining Company, a publicly owned monopoly concession. Total consumption in 2005 was 5.4 million tons of oil equivalent (TOE). Kasasbeh said that the decision to combine the planned two fuel price hikes this year into one was more efficient, and was "better" than the plan the GoJ had presented to the IMF in mid-2005. Last year, the two fuel hikes were only a few months apart and required the nation to go through major adjustments twice. This one-off hike in 2006 would save the government and people of Jordan a "big headache."

Inflationary Pressure

¶5. (SBU) Noting the prime minister had already floated publicly a range for the fuel hikes and had stated this would contribute to the inflation rate, Kasasbeh elaborated that the Ministry of Finance expected the inflation rate to increase by as much as 1.5%, bringing the estimated annual inflation rate to not more than 6.5% for 2006. (See Ref C for an assessment of the inflationary effects of oil price hikes on Jordan's macroeconomic development.) The public campaign to explain the broad outlines of the price increases is resulting in talk of other price hikes. The General Manager of the Jordan Cement Factories Company told the Jordan Times March 16 that the price of cement would rise, reflecting the new price of oil products. At the same time, he noted that the company would cooperate with the Ministry of Industry and Trade in setting "stable" prices. COMMENT: This is likely an early indication the GoJ will try to rein in commercial impulses to pass on oil price increases, and thereby limit downstream inflationary effects on consumer prices. END COMMENT.

Social Safety Net Includes Private Sector

¶6. (SBU) To offset the impact of the fuel hikes, the GoJ will institute a "social safety net" for the impoverished, working poor, and low-income individuals, said Kasasbeh. This will come in two tranches of about JD 30 million each in April and September (a total of about USD 85 million). The GoJ plans to issue direct payments to those on salary, pension or welfare. In addition, some 1.6 million individuals in the private sector will also be eligible to apply for the two one-time payments by filling out a form and submitting it at a post office. This plan to include those outside the current government safety net is "more socially

just" than the government-only payments last year, according to Kasasbeh. The GoJ will be ready to implement the private sector payment scheme by the time of the fuel hikes, he predicted.

¶7. (C) In March 2007, the government will be ready to liberalize all fuel prices and eliminate the oil subsidies, for a savings to the FY 2007 budget of JD 125 million (at current prices), said Kasasbeh. In addition, the Ministry of Finance has a plan to begin taxing fuels in 2007, so that the oil sector will be a source of revenue for the government, he noted.

¶8. (C) COMMENT: The GoJ is doing its best to stanch the flow of budget dollars into non-productive fuel subsidies. Private studies show that over 40% of the benefits of these subsidies are enjoyed by the middle class and above in Jordan. However, that factoid is likely to be little consolation to poor families as they pay higher prices in the market or when they face higher heating bills in the winter of 2006-2007. The GOJ is prudent to attempt to cushion the blow for the poorest Jordanians with the two planned compensations payments, but as rumors of the plan leak out, some - in the media, the labor union scene, and among Islamists - are already dismissing the "social safety net" program as inadequate. Ordinary Jordanians, whether poor or middle class, have come to regard the subsidies as an entitlement. As with past subsidy cuts, we expect loud complaints and much populist rhetoric when the next price rise comes. Last year's price hikes provoked only peaceful demonstrations. The coming price hike in diesel fuel is 10 percent larger than the biggest single price increase last year. As a consequence, it may be more difficult for the GOJ to avoid trouble.
HALE